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SIPDIS

PLEASE PASS TO USDA/FAS/EXPORT CREDIT FOR MARY CHAMBLIS,
DEPUTY ADMINISTRATOR AND DIRECTOR, PROGRAMMING DIVISION.

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SUBJECT: YEMEN REQUEST - FY05 USDA FOOD ASSISTANCE, PL480
TITLE I

REF: SECSTATE 172525

1. Summary: USDA food assistance in Yemen is enhancing infrastructure, funding agricultural research projects, and teaching horticultural marketing and livestock management skills. Since 2000, USDA assistance constituted the bulk of USG development aid to Yemen. In conjunction with USAID technical assistance, USDA food assistance programs help achieve greater security and stability within Yemen and improve bilateral relations. Yemen is a key U.S. partner in the global fight against terrorism. Post, therefore, requests \$20.5 million in USDA support for FY 2005.

PL-480 REQUEST FOR YEMEN

2. Post's request for the FY05 PL-480 Title I Grant Program is \$20.5 million. Wheat, wheat flour, and soybean oil will be easily absorbed into the local market. If these commodities are not available, corn and soybean meal are excellent alternative choices for the PL-480 grant program in Yemen. Tier 1 commodities are preferred over tier 2 commodities due to larger market demand.

Based on current Yemeni market prices, Post requests the following commodities:

Tier 1	Amount	Est. Value
Wheat	60,000 MT	\$9.0 million
Wheat Flour	30,000 MT	\$7.5 million
Refined Soybean Oil	5,000 MT	\$4.0 million
TOTAL	95,000 MT	\$20.5 million

Tier 2	Amount	Est. Value
Corn	20,000 MT	\$3.4 million
Soybean Meal	7,000 MT	\$1.9 million

3. MARKET DISPLACEMENT: Yemen is a poor country in which only the lowest priced commodities will sell. Yemen imports 1.7 million MT wheat and 400,000 MT flour. The majority of wheat is imported from India and Australia. Post's request of 90,000 MT would only account for five percent of Yemen's total imports of wheat and flour and will not interfere with commercial sales. Yemen traditionally imports soft white wheat, which is used for both milling and direct sale to consumers. Domestic milling capacity is steadily increasing, which is reducing the demand for imported flour. Therefore, Post requests a greater ratio of wheat-to-wheat flour.

4. Since the introduction of U.S. flour through the 416(b) program, consumers have been exposed to the quality of U.S. wheat. Because the price of U.S. wheat is significantly higher than subsidized European flour, Yemeni importers do not purchase U.S. flour on the market. PL-480 would expose more Yemeni consumers to higher quality U.S. wheat and in the future could expand the market for U.S. agricultural products.

5. Yemen remains a net importer of refined vegetable oil, bulk palm oil, corn and soybean meal. Yemen imports refined, packaged oil for direct consumer sales. For food products, bulk palm oil and refined vegetable oil are used for manufacturing and packaging. Oil importers who manufacture and distribute brand-name oil products may combine refined vegetable oils with palm oil to make the finished products. Annual imports of corn and soybean meal are approximately 300,000 MT for corn and 80,000 MT for soybean; these are primarily used for chicken feed production. The Yemeni market would absorb PL-480 donations of corn and soybean meal.

6. LOCAL PRODUCTION: With its rocky, mountainous terrain, Yemen's food production is limited to isolated mountain terraces. Only three percent of Yemen's land is cultivated, with water scarcity severely limiting its expansion. As a result, Yemen will remain import-dependent for the majority of its grain and crop demands. Yemen produces less than

150,000 MT of wheat annually and this is unlikely to increase substantially over the long term. Yemen imports nearly all of its wheat, wheat flour, corn, rice, and soybean oil and meal requirements. With a birthrate of 6.7 children per woman and an annual population growth rate of nearly 3.5 percent. Demand for agricultural products will continue to increase.

THE YEMEN PL-480 PROGRAM: SPRINGING OFF PAST SUCCESS

17. USG development strategy in Yemen focuses on agriculture, health and education in the most rural and underserved regions of Yemen. Post will continue to support ongoing core development objectives; past and ongoing PL-480 assistance is complementary and integral to the mission's overall development strategy. Recognizing the practical results achieved from past PL-480 projects, stakeholders such as farmers, rural communities, and the Government of Yemen continue to request expanded development services.

18. PAST FOOD ASSISTANCE SUCCESSES: Based on continuing USG development objectives outlined in paragraph 10, USDA food aid programs are currently funding extremely successful rural development projects on which future PL-480 grants will expand. The following are a few examples:

-- The FY 2002 416(b) program financed a pilot irrigation project in Marib governorate that significantly cut the cost of pumping water, reduced water wastage, and is increasing yields due to more efficient water usage. In addition, the food assistance program financed the construction of health facilities in many regions of the country and the training of medical staff.

-- A large-scale municipal drainage project underway in the city of Sana'a will allow rainwater to be directed to surrounding farmland for irrigation purposes.

-- The FY03 PL-480 program is financing a project that takes research and extension of productivity to the village level in eight districts, where multi-disciplinary teams directly address the problems faced by farmers and helps introduce expanded income opportunities.

The FY 2005 Food for Progress will allow the USG to expand these projects to more remote and vulnerable areas.

19. Through a transparent tendering process, PL-480 commodities received under a Food for Progress program will be sold to the private sector. A Joint Working Group (JWG) oversees the USDA food assistance program, consisting of one member each from the U.S. Embassy, Ministry of Planning and International Cooperation, Ministry of Agriculture and Irrigation, and Ministry of Finance. The JWG monitors the tendering and execution of the food assistance programs and approves all project proposals utilizing PL-480 proceeds.

10. CONTINUING AND STRENGTHENING USG DEVELOPMENT OBJECTIVES: With FY 2005 PL-480 grants, the JWG plans to continue directing PL-480 proceeds to rural development projects, primarily in tribal areas. Three main factors influence JWG project decisions.

-- First, poverty afflicts the rural areas to a greater depth and breadth than the urban areas; most of the Yemen labor force lives and works on small, subsistence family farms. PL-480 activities must have a measurable, positive effect on poverty alleviation and employment generation.

-- Second, water resources continue to diminish and remain constrained; water conservation and rain-fed agriculture should be given utmost consideration in project frameworks.

-- Third, projects should generate increased economic opportunity through agricultural productivity along with viable opportunities for women.

In keeping with these objectives, the 2005 PL-480 program will fund successful projects designed to expand sustainable production of agricultural products, expand markets for agricultural products, improve the framework for economic growth, and improve health and living conditions in rural areas:

a. Sustainable Agricultural and Livestock Sectors: Improve crop and livestock specification and growing techniques; improve access to, and use of, water and other inputs (e.g. seeds, feed); support community-based producers associations; study incentives to shift to higher value products; assist businesses that support the agriculture sector; terrace and soil reclamation/conservation; technical support to women food producers.

b. Growing the Domestic Agricultural Markets: Improve access to infrastructure for agricultural related businesses;

improve product quality, processing and packaging; support private sector marketing co-ops; expand access to credit; market research and development; expand regional and international partnerships.

c. Economic Growth: Assist Yemeni higher education and research institutions to support the private sector; technical assistance to the Ministry of Agriculture and other ministries and to district and governorate agriculture and economic development offices; identify opportunities to expand exports and increase investment in new businesses; technical assistance to help the ROYG increase trade opportunities; assistance to ROYG at all national, governorate and district levels to collect and use agriculture and other commercial data for planning; improve IT applications to support program objectives; improve legal, regulatory and institutional environment for economic growth and income opportunities.

d. Health and Living Conditions in Rural Areas: Improve living conditions, health and productivity of the rural poor, who depend on agriculture for their livelihoods; improve access to health care and clean water and improve sanitation.

YEMEN,S QUALIFICATION FOR PL-480 PROGRAM

11. SYSTEMIC POVERTY AND UNDERDEVELOPMENT: Yemen is one of the least-developed countries (LDCs) in the world and is the poorest country in the Middle East. According to 2004 UN estimates, the per capita income in Yemen is \$508 a year. Yemen ranks 152 out of 174 nations on the UN's World Development Index. Approximately 40 percent of the population lives below the poverty line. The median age in Yemen is 15 years and the rapid population growth is coupled with low rate of enrollment in basic education, just 61.3 percent for boys and 41.1 percent for girls. The low level of basic education leads to high illiteracy rates with varying estimates of 65 percent literacy for men and 35 percent literacy for women.

12. ROYG EFFORTS TO STEM POVERTY AND INCREASE FOOD SECURITY: The ROYG is currently implementing its second Five-Year Economic and Social Development Plan (from 2001 to 2005) and Poverty Reduction Strategy Program (PSRP). Both focus on reducing poverty and seek to address national concerns such as water scarcity, the absence of infrastructure to support agriculture and industrial development (including a reliable transport system), rational utilization of the country's fish resources, as well as to increase enrollment in basic education (especially for girls) and access to healthcare and other social services. The projects supported by the Food for Progress program will complement the objectives of the PRSP and the Economic and Social Development Plan.

13. PREPARATIONS FOR WTO ACESSION: Yemen applied for accession to the World Trade Organization (WTO) in July 2000. In 1995, Yemen began executing an IMF structural reform program and has taken measures to stabilize its economy. Due to this guidance, basic commodities subsidies have been removed. The IMF and World Bank have welcomed this and other reform measures implemented to date. To prepare for WTO accession, Yemen will examine reducing import restrictions and opening its agriculture sector to the global market.

14. FINANCIAL HEALTH AND STABILITY: Over 90 percent of Yemen's export revenues derive from oil exports. Record high world oil prices over the past year have restored Yemen's depleted foreign currency reserves. While current reserves hover around \$5 billion, they could be in danger of dramatically collapsing should oil prices fall. In addition, Yemen brought its indebtedness to a sustainable level due in part to "exit treatment" at the Paris Club meetings in June 2001 and a July 2002 Yemen-U.S. agreement to reduce and reschedule \$73 million in debts. The current debt burden represents 48 percent of its GDP. Therefore, Yemen meets the basic criteria established for the Food for Progress program.

15. LIMITED PARTICIPATION FROM PRIVATE VOLUNTEER ORGANIZATIONS (PVOs) AND INTERNATIONAL DONORS: Many PVOs and international donors are slowly returning their assistance to Yemen. Much of the low level of participation can be attributed to security concerns starting from the 1990 Gulf War, the Cole attack, and other events. Nonetheless even European and Japanese aid levels are not high. In fact, Yemen receives a comparatively low level of foreign assistance per capita than other LDCs. The difficulty of operating in Yemen's rugged, mountainous and rural environment where security is not easily maintained, contributes to reduced donor support. Without a comprehensive PVO/NGO infrastructure, Post continues to support a government-to-government program. Sales of these PL-480 commodities can be converted to liquid funds for JWG-selected projects. The JWG, which includes Embassy representation, identifies projects for support, administers transparent tendering processes in which local contractors

compete, and reviews the progress and outcome of all PL-480 projects.

¶16. AN EMERGING DEMOCRACY: Yemen is one of a handful of Middle Eastern countries that have adopted a serious and sustained program of democratic form. Following unification in 1990, the first Parliament elected by universal suffrage convened in 1993. In 1999, Yemen held its first Presidential election, and in February 2001, the first election of local councils began the move towards decentralization. The 2003 Parliamentary elections were technically sound and judged &generally free and fair8 by international observers. In addition, the ROYG is cooperating with the USG on sensitive counter-terrorism efforts. Continued assistance through PL-480 serves U.S. interests in buttressing democratic reform and complementing counter-terrorism efforts by enhancing income-generating activities in the rural, tribal areas of Yemen where extremists may take refuge.

¶17. ...AND A COUNTER-TERRORISM PARTNER: The ROYG has supported Middle East peace efforts, distanced itself from Iraq, and been an active ally of the Operation Enduring Freedom coalition against Al Qa,ida. Most importantly, Yemen has cooperated on the investigation into the terrorist bombing of the USS Cole in Aden in October 2000, and expanded its counter-terrorism efforts following President Bush,s November 2001 meeting with President Saleh. A sign of Yemen,s commitment to democratic progress, President Saleh attended the June 2004 Sea Island G-8 Conference. As a result, Yemen will co-sponsor with Turkey and Italy the Democracy Assistance Dialogue. Development assistance, especially in tribal areas, is important to extend government control and deny safe havens for Al Qa,ida. Ongoing U.S. Food for Progress assistance will reinforce U.S. goals of democratic reform and counter-terrorism cooperation.

COMMENT

¶18. USDA food aid continues to exemplify the USG,s overall commitment to support Yemen as an emerging democracy and a key partner in the war against terrorism. U.S. assistance has expanded USG leverage in both the political and economic development spheres. Post recommends that Yemen be considered a very strong candidate for the Food for Progress program at a level consistent with PL-480 programs of recent years. This aid is a vital step toward meeting well-documented humanitarian needs and will strengthen Yemen,s own ability to resist and combat extremist ideology in the country and the region. End comment.
KRAJESKI